Chinese Knockoff Sombrero Drags Colombian Tribe Into Trade Fight

By Joshua Goodman - Jan 27, 2013

In the Caribbean village of Tuchin, Colombian families who’ve woven straw hats for generations are seeing their livelihoods threatened by competition that shows China’s double-edged impact in Latin America.

Chinese-made imitations of the black-and-white sombrero vueltiao, as the hat is known, sell for half the $20 price of the least expensive originals. In response to plunging sales by artisans who spend up to 15 days cutting, sun-drying and braiding cane leaves to make a single hat, the government is rushing to protect one of the nation’s symbols and ban plastic, machine-made rip-offs.

“The Chinese are stealing our culture like the Spaniards did 500 years ago,” said Eligio Pestana, mayor of Tuchin, where 90 percent of the 34,000 residents, descendants of Zenu Indians, depend on the handicraft trade.

An anti-China backlash is on the rise throughout South America as businesses, from automakers in Brazil to shoemakers in Argentina, demand protection from foreign competition. The trade tension highlights the downside of the continent’s increasing economic ties with the world’s most populous nation, fueled by China’s appetite for commodities from copper to soybeans.

“There’s high sensitivity to China throughout the region,” Colombian Finance Minister Mauricio Cardenas said in a Jan. 15 interview in Bogota. “While we’re all happy with one side of the story, enjoying the high price for our commodity exports, the economic impact on the currency and manufacturers can be very negative.”

Resource Exports

China’s global hunt for natural resources has expanded Latin America’s annual exports to the Asian nation more than 20-fold, to $86 billion in 2011 from $3.9 billion in 2000, according to calculations by the Inter-American Development Bank.

The gains have come at a cost to South American industries. Dollar inflows generated by the export boom have driven the region’s currencies higher, making imports cheaper and leaving local manufacturers hard-pressed to compete.

Brazil’s real, Colombia’s peso and Chile’s peso were the three best-performing emerging-market currencies
over the past decade, each surging more than 55 percent on demand for the countries’ iron ore, oil and copper. They’ve continued to climb the past two months, as the U.S. Congress averted a fiscal crisis and China’s economy rebounds, renewing calls among policy makers for action to curb dollar inflows.

**Risk Appetite**

The region’s currencies are likely to continue appreciating as foreign investment reaches new highs and risk appetite among global investors improves, said Alejandro Cuadrado, head of Latin America currency strategy at Banco Bilbao Vizcaya Argentaria SA (BBVA) in New York.

“You would need a significant correction in commodity prices to turn away investment,” Cuadrado, the region’s most accurate currency forecaster as of the end of 2012, according to data compiled by Bloomberg, said in a phone interview. BBVA is forecasting continued currency appreciation across the region this year, with Peru’s sol favored to gain the most.

While the currency gains make it more difficult to sell abroad, that’s not a significant source of revenue for most South American manufacturers, who account for less than 5 percent of global exports, according to World Trade Organization data. The bigger threat comes from cheaper imports, which take away market share from local producers in economies that only opened up to outside competition in the past two decades.

China’s share of the region’s imports has surged to 13.3 percent in 2010, from 1.8 percent in 2000, the United Nations Economic Commission for Latin America and the Caribbean said in a report last year. The world’s No. 2 economy is forecast to surpass the European Union as the region’s second-biggest source of imports in 2015, the same report said.

**Trade Barriers**

Across the region, the reaction has been to raise trade barriers in a partial revival of policies that proved disastrous in the 1970s, said Mauricio Mesquita, a trade economist at the Washington-based IDB. Anti-dumping probes against China by Argentina and Brazil -- South America’s two biggest economies -- that were rare a decade ago have also proliferated, he said.

While China is losing its edge in low-cost production to Southeast Asia as wages increase, the country’s shift to higher-value manufacturing is now threatening South American makers of machinery and capital goods, said Mesquita.

“The fact that most of the region’s leaders and economists were raised in an environment where manufacturing was seen as the way to liberate themselves from their colonial past makes it very hard for them to let go,” he said.

**China’s Outlook**
China doesn’t want to be just an importer of natural resources from Latin America, said Foreign Ministry spokesman Hong Lei, adding that trade with the region has the potential to reach $500 billion within the next five years.

“China doesn’t seek a [trade surplus] with the region, Hong said at a press conference in Beijing Jan. 25 in response to a question about Chinese imports displacing local goods. “We also want to import more highly value-added products.”

Brazil, with the region’s biggest manufacturing base, has been the most aggressive in resisting the Chinese trade push.

President Dilma Rousseff raised concern in Beijing in April 2011 that China was keeping the yuan artificially low to gain an export edge. Five months later she hiked by 30 percentage points a tax on foreign cars after automakers complained about threats from competitors including Wuhu-based Chery Automobile Co. and Hefei-based Anhui Jianghuai Automobile Group Co.’s JAC Motors.

**Real’s Surge**

The measure was adopted to protect jobs as Brazil’s industry struggles to regain its footing after the real hit a 12-year-high in 2011. Latin America’s biggest economy grew 1 percent last year, economists surveyed by Bloomberg forecast, less than Russia, India and China, its peers in the BRIC group of the world’s biggest emerging markets.

Foreign car purchases fell 7.3 percent in 2012, helping the local production units of Fiat SpA (F), Ford Motor Co. (F) and General Motors Co. (GM) regain some of the share they’ve lost in the world’s fourth-biggest car market from a doubling of imports since 2007.

The trade barriers come at a price. A Brazilian-made version of Honda Motor Co.’s Civic costs at least 66,690 reais ($32,850), compared with as little as $17,965 in the U.S., according to the company’s websites.

In Argentina, President Cristina Fernandez de Kirchner in 2010 slapped an anti-dumping tax on Chinese-made footwear and textiles. Beijing retaliated by imposing new sanitary restrictions on Argentina’s soy oil, effectively banning purchases of the country’s biggest source of hard currency. Shipments resumed only after Fernandez flew to China.

While the economic stakes are smaller in Tuchin, about 122 kilometers (76 miles) from the Caribbean coast, anti-Chinese sentiment is fierce, with some merchants threatening to pelt with stones anyone seen selling the imitation hats.

**Cheaper Sombreros**

Faride Velasquez Morales says her family-run handicraft wholesaler, Artesanias Divino Nino, has seen sales plummet by half to about 300 a month after street merchants began hawking the made-in-China hats at
tourist centers and festivals over the past year. To stay afloat, the company run by her husband and his nine siblings has had to lower prices to just above cost.

“The Chinese are taking us to bankruptcy,” said Morales, 40, as she braids a category 21 sombrero, whose thread-less stitching is so fine that the wide-brimmed hat can be folded small enough to carry in one’s pocket.

“They may beat us on price, but the Chinese will never know our secrets,” she said in an interview from the dirt-floored patio of her home, as accordion-heavy vallenato music blared from a giant speaker.

**Clinton’s Headgear**

Adding to injury is the sombrero’s iconic status. The technique for braiding the fibers of a plant called cana flecha dates back a thousand years to the Zenu Indians. Former President Bill Clinton sported one when he visited the resort city of Cartagena in 2000.

This month, the government banned the sale of the Chinese-made hats after local media reported lower-priced knockoffs being sold in Cartagena. Trade Minister Sergio Diaz-Granados said the sombrero, declared a national symbol in 2004, is entitled to the same protected status as dry-cured ham from Parma, Italy, or sparkling wine from France’s Champagne region.

“Free trade of the 21st century has rules -- it’s not the law of the strongest,” he told indigenous leaders at a meeting this month in Monteria, a cattle-ranching town 90 kilometers from Tuchin, to coordinate the government’s response.

**Embracing Globalization**

Reflecting Colombia’s embrace of globalization -- a free trade agreement with the U.S. took effect last year -- the government has been less hostile to China than its more industrialized Southern Cone neighbors. President Juan Manuel Santos, shortly after taking office in 2010, cut tariffs across the board to an average 8 percent from 12 percent and has since lowered to zero duties on items that Colombia doesn’t produce.

Still, even in one of South America’s most open economies, sentiment against the Chinese is building. Santos on Jan. 22 imposed a $4 per kilogram tax on imported apparel and footwear, helping an industry that has been one of the hardest hit by the currency gains and imports from Asia.

China has grown more sensitive to complaints that trade benefits are one-sided. Premier Wen Jiabao, in a speech in Chile last June, said China is seeking more “balanced” trade with Latin America and offered a $10 billion credit line to fund infrastructure development in the region.

“It was a sign that the conversation has shifted,” said Kevin Gallagher, an economist at Boston University and author of “The Dragon in the Room: China & the Future of Latin American Industrialization.”
At the same time, China has pushed back against South America’s own protectionism. The government’s 2012 foreign trade and investment report said Chinese companies face “serious damage” in Brazil because of arbitrary import rules and the country’s failure to recognize its status as a market economy. Argentina’s treatment of Chinese products sets a “negative example” throughout the region, the same report found.

For the residents of Tuchin, talk of trade openness falls on deaf ears.

“Behind every hat is the history of our people,” said Mayor Pestana. “Free trade can’t be a vehicle for destroying our culture.”

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